

ARCTIC COUNCIL PROJECT SUPPORT INSTRUMENT  
AGREEMENT ON COOPERATION

between  
the UNITED STATES  
as Contributor

and

Nordic Environment Finance Corporation  
as Fund Manager

This Agreement on Cooperation (the "Agreement") is made between the "United States" represented by "US Environmental Protection Agency ("EPA")" (hereinafter referred to as "the Contributor") and Nordic Environment Finance Corporation (NEFCO) (hereinafter referred to as "Fund Manager" or as "NEFCO") (collectively referred to as the "Parties") for administration and disbursement of funds made available by the Contributor for financing of Arctic Council projects and for co-administration of PSI Projects on the Russian territory.

PREAMBLE

The Arctic Council as a part of its activities has identified and agreed upon a number of priority projects, the implementation of which contribute to meeting the objectives of the Council, and other such projects are foreseen to be identified and agreed upon in the future;

The Arctic Council member countries, observer countries and others are interested in important bilateral contributions for Arctic Council projects;

It has been recognized that in addition, the development and implementation of Arctic Council projects will benefit from a concerted and comprehensive approach whereby resources are pooled for this purpose;

The Fourth Ministerial Meeting of the Arctic Council in Reykjavik in November 2004 requested the Senior Arctic Officials ("SAOs") to establish a pilot phase of the Arctic Council Project Support Instrument to focus on actions against pollution in the Arctic;

The SAOs on 7 April 2005 decided to establish the Arctic Council Project Support Instrument ("PSI") and approved the Guidelines for the Arctic Council Project Support Instrument (the "PSI Guidelines" provided as Annex 1 hereto) for the management of the PSI;

NEFCO has been requested to undertake the practical establishment of the Project Support Instrument;

The PSI will be governed by a PSI Committee providing strategic guidance in line with the PSI Guidelines, the Rules of Procedure for the PSI Committee (provided as Annex 4 hereto) and in a manner compatible with this Agreement, and the Fund Manager will manage and administer the funds on behalf of the Contributor;





ACCORDINGLY, the Board of Directors of NEFCO has accepted the administration of the PSI by NEFCO.

## ARTICLE 1 - DEFINITIONS

- AC means the Arctic Council, the high level intergovernmental forum formally established by the Ottawa Declaration of 1996. The AC provides a forum for promoting cooperation, coordination and interaction among the Arctic States, with the involvement of the Arctic Indigenous communities and other Arctic inhabitants on common Arctic issues, in particular issues of sustainable development and environmental protection in the Arctic. Current Member States of the AC are Canada, Denmark, Finland, Iceland, Norway, Russian Federation, Sweden, and the United States of America. The Arctic Council Ministerial Meetings are currently held biannually in the country holding the AC chairmanship;
- AC Project or Arctic Council Project, means any project approved by the AC as appropriate;
- ACAP means the Arctic Contaminants Action Programme, one of the Working Groups of the Arctic Council;
- Administrative expenses means the incremental operating costs incurred by the Fund Manager and/or REA on account of the administration of the PSI Projects, including staff salaries, social charges, PSI Account audit, meetings and conferences, dissemination information related to the PSI, office rent and utilities, office equipment and supplies, office and equipment insurance, maintenance and repair, vehicle maintenance and repair, travel, communication, translation and interpretation, bank charges and other miscellaneous costs directly associated with the PSI and agreed to by the PSI Committee;
- AGA means the Authorised Governmental Agency appointed by the Government of the Russian Federation for the elaboration and operation of the PSI in the Russian Federation;
- NEFCO means the Nordic Environment Finance Corporation, an international financial institution established by the Governments of Denmark, Finland, Iceland, Norway and Sweden;
- PSI Project means a specific Arctic Council Project receiving financing through the PSI in accordance with the PSI Guidelines;
- REA means the authorised Russian Executive Agency nominated by the Russian Federation for effective administration of the PSI Projects in the Russian Federation;
- SAO means the Senior Arctic Officials appointed as such by the members of the Arctic Council. Meetings of SAOs are held every six months.

## ARTICLE 2 - SUBJECT AND AIM OF THE AGREEMENT

1. The Contributor has on 9 February 2012 made available to the Fund Manager the amount of "USD 1,000,000" (the "Contributor funds"). The Fund Manager has accepted the Contributor funds for inclusion in the PSI.



Any subsequent contribution, if applicable, shall be made using the Contribution Confirmation in accordance with the template in Annex 2 to this Agreement. These funds shall form part of the PSI.

2. The Contributor hereby appoints the Fund Manager to be the fund administrator with respect to the Contributor funds as part of the PSI. The Fund Manager has only those duties, which are expressly specified in this Contract unless and until other duties are separately agreed to by the PSI Committee and the Fund Manager. The Fund Manager on behalf of the PSI shall enter into such contracts with other parties as are needed to meet its objectives.
3. The Fund Manager shall administer the Contributor funds as part of the PSI funds in accordance with the PSI Guidelines, the guidance by the PSI Committee, this Agreement and the normal practices of the Fund Manager and with the same care as the Fund Manager's own funds.
4. The Parties shall consult from time to time and whenever deemed necessary, in conformity with and subject to their respective practices with respect to the treatment of information of a confidential nature, exchange views on the progress of, and any difficulties or problems encountered in, the carrying out of the purpose of this Agreement and the implementation of the PSI Projects.

In particular the Parties shall promptly inform each other of any of the following events: (a) any event which in its opinion is likely to interfere materially with or hinder the implementation of any of the PSI Projects or the Agreement, and; (b) any suspension or cancellation under any agreement relevant to the implementation of the PSI Projects.

### ARTICLE 3 - THE PSI

1. The PSI is a financing instrument established for the purpose of mobilizing and channelling financing for specific Arctic Council Projects (the PSI Projects) as defined in Article 2.1 of the PSI Guidelines (provided as Annex 1 hereto).

Each project subject to financing within the framework of the PSI shall have been approved in accordance with Article 2 of the PSI Guidelines.

In accordance with Article 2.4 of the PSI Guidelines, the PSI may finance:

- (i) project preparation activities, such as project identification and concept development, pre-feasibility studies, feasibility studies, environmental impact assessments, business plans, financing plans, preliminary design, preparation of tender documents tendering and evaluation; and
- (ii) specific measures in the implementation phase of pilot and demonstration projects, including supplies of equipment and services.

According to Article 2.2(ii) of the PSI Guidelines the PSI is not to provide financing for general Arctic Council activities, such as the operating or administrative costs of Arctic Council programs or the costs for participation in Arctic Council activities. The PSI shall give priority to projects related to pollution prevention, abatement and elimination (Article 2.3 of the PSI Guidelines).



In accordance with Article 4 of the PSI Guidelines, the PSI funds may be used for financing Arctic Council projects or sub-projects through grants or contingent grants or loans or a combination of these.

2. The resources of the PSI shall consist of:
  - 2.1. amounts accepted by the Fund Manager for inclusion in the PSI in accordance with the PSI Guidelines. Each contribution shall be denominated in Euro or any other freely convertible currency.
  - 2.2. income derived from investment of the resources of the PSI in accordance with Article 6(2) of this Contract.

3. Expenditure

Unless otherwise approved by the PSI Committee, commitments for expenditure will only be made on the basis of a budget approved by the PSI Committee.

4. Commencement of the operations of the PSI

The PSI will begin its operations once minimum five (5) contributors, including the Russian Federation, have paid in contributions to the PSI Account (as defined in Article 6(1) below) or provided the promissory notes for the subsequent annual contributions to the Fund Manager.

#### ARTICLE 4 – THE GOVERNANCE OF THE PSI. PSI COMMITTEE

1. The PSI is constituted of contributions by several contributors. In order to effectively coordinate the interaction between the contributors and the Fund Manager the Parties together with other contributors will establish a PSI Committee. The PSI Committee shall operate in accordance with the PSI Guidelines and the Rules of Procedure (provided as Annex 4 to this Contract). The Rules of Procedure and any amendments and additions to the same shall be approved by the PSI Committee unanimously.
2. The Contributor agrees to participate in the PSI Committee and to execute its powers under this Contract as a member of the PSI Committee to the extent they are regulated by said Rules of Procedure.

#### ARTICLE 5 - ADMINISTRATION OF THE PSI.

1. The Fund Manager shall administer the PSI and shall provide, within the approved PSI budgets, administrative support to the PSI. In particular, the Fund Manager shall fulfil its role by
  - (1) making available Fund Manager staff and other experts with the skills and competence required to administer the PSI;
  - (2) preparing, making, disbursing and administering the administration contracts, making calls for payment of promissory notes as required to make disbursements, and otherwise operating the PSI;
  - (3) liaising, to the extent necessary to fulfil its managerial role, with the contributors, the governments of the recipient countries, concerned authorities and utilities in the



- recipient countries and other public and private entities and reporting thereon to the PSI Committee;
- (4) preparing annual financial statements of the PSI and a report on such financial statements and on the activities financed with the resources of the PSI during the period covered by such statements in accordance with the set format for review and approval by the PSI Committee;
  - (5) preparing quarterly financial statements of the PSI and a report on such financial statements and on the activities financed with the resources of the PSI during the period covered by such statements in accordance with the set format for review by the Contributor;
  - (6) preparing the meetings of the PSI Committee and serving as secretariat of such meetings;
  - (7) examination, in cooperation with the AC Working Groups, of the requests of the interested organisations related to the financing of projects from the PSI;
  - (8) presenting AC Project proposals for approval by the PSI Committee;
  - (9) submitting to the PSI Committee all necessary reports and technical documentation, including an Annual Report. Such reports will provide a comprehensive overview of the implementation of the PSI Projects approved for funding by the PSI Committee;
  - (10) the Fund Manager will ensure that in its publications (Annual Report, newsletters etc.), in its communications with the recipient country and the media, as well as on the construction sites established for PSI Projects implemented with the support of the PSI, appropriate visibility is given to the PSI and its Contributors and that due account will be taken of the relative size of contributions to the PSI when developing and implementing the visibility policy of the PSI. Such visibility policy and its funding shall be subject to approval of by the PSI Committee;
  - (11) carrying out such other functions as may be necessary for the efficient administration of the PSI.
2. No chartered capital resources of NEFCO shall be used to finance or subsidise PSI activities. To the extent consistent with allowable direct or indirect costs and other costs, costs shall be funded by the Cooperation Agreement and the US EPA agrees to provide NEFCO with its indirect cost set out in Appendix 5, Table 1, subject to future revisions by agreement of both Parties.

#### ARTICLE 6 - ACCOUNTS AND AUDIT

1. The Fund Manager shall for the purpose of the PSI open an interest bearing bank account administered by the Fund Manager (the "PSI Account"). The PSI Account shall be denominated in EUR and shall include no other funds except the PSI funds.

The interest accrued to the PSI funds shall be added to the PSI Account.

2. The Fund Manager is authorized to use the funds in the PSI Account for making deposits in interest earning instruments in order to obtain a higher yield. Such placements shall be made in instruments of equal standard as those utilized by the Fund Manager for managing its own liquidity.

The interest earned on such placements shall be added to the PSI Account.

3. The PSI Account shall be accounted for annually in a PSI Account Report which shall be submitted to the Contributor by the Fund Manager and which shall be supported by a record of PSI funds used in the preceding period; and a bank reconciliation for the PSI Account.

*Handwritten signature*



During the lifetime of the PSI Account, the Contributor shall be entitled to request information from the Fund Manager regarding disbursements made from and the balance of the PSI Account.

4. The Fund Manager shall maintain the accounts in accordance with the same accounting principles, which it follows in respect of its own books, and accounts.
5. The fiscal year of the PSI shall be the calendar year.
6. The financial statements of the PSI shall be audited on an annual basis before the end of June of the following year by internal auditors of the Fund Manager and an external auditor in a manner consistent with that applied to the Fund Manager's ordinary capital resources. The costs of the audit shall be paid from the Administrative expenses. Audit shall be performed by a reputable audit firm. The external auditor is appointed by the PSI Committee on a yearly basis.
7. The Contributor may request clarification of information received from the Fund Manager on the use of the Contributor funds and the Contributor's Financial Control shall be given access to pertinent information held by the Fund Manager relating to the use of the Contributor funds. Such access shall be limited to verifying whether the proceeds of the Contributor funds have been used in conformity with this Agreement and shall not prejudice the confidentiality of other information related to the Fund Manager's affairs or clients.
8. Valuation of Currencies

Whenever it shall be necessary for purposes of preparation or presentation of financial statements to determine the value of any currency in terms of another currency, the valuation shall be made by the Fund Manager using the same principles as the Fund Manager applies for its ordinary operations.

#### ARTICLE 7 - OPERATIONS OF THE PSI IN THE RUSSIAN FEDERATION

1. In the Russian Federation the PSI Projects can be implemented as programmes, projects or sub-projects.
2. For effective administration of the PSI Projects in Russia an authorized Russian Executing Agency (REA) will be nominated by the Russian Federation as agreed with NEFCO.

REA will be incorporated into the structure of the PSI with a view to provide financial, legal and technical assistance to the Fund Manager by extending a wide spectrum of services on organization of the PSI Projects in the Russian Federation. REA will have its own currency account for implementation of said functions.

3. REA is entitled to full compensation from the resources of the PSI for all its costs and expenses.
4. The amount of compensation to REA is established on the basis of yearly budgets approved by the PSI Committee in accordance with the Rules of Procedure for the PSI Committee. Should the PSI Committee not reach an agreement on a yearly budget, the budget accepted for the previous year shall apply until a new budget is approved by the PSI Committee.



5. A separate agreement shall be entered into between NEFCO and REA, and agreed to by AGA, on the division of functions between NEFCO and REA. The Guidelines for action of REA is provided as Annex 3 hereto.
6. PSI funds targeted to PSI Projects in Russia can be exempted of taxes and duties levied in the Russian Federation in accordance with the legislation of the Russian Federation. The PSI Committee shall in each case decide on whether the tax exemption shall be applied for by the beneficiary of a PSI Project.

#### ARTICLE 8 - PROCUREMENT AND ANTI-CORRUPTION

1. Any procurement and contracting shall be made in accordance with the NEFCO Procurement Guidelines and the NEFCO Policy on Fighting Corruption. Invitations to tender as well as the PSI contracts (such as grant agreements) to be entered into by the Fund Manager shall include a clause on the possibility of the tender being rejected and the contract being cancelled, in case any illegal or corrupt practices have been connected with the award or the execution of the contract.

#### ARTICLE 9 - EFFECTIVENESS AND TERMINATION OF THIS AGREEMENT

1. This Agreement shall enter into force upon its signature by the Parties, and shall remain in effect until all PSI funds have been exhausted and the Parties have fulfilled their obligations hereunder.
2. This Agreement may be modified from time to time by further agreement in writing between the Parties.
3. Each Party may terminate this Agreement by ninety (90) day's written notice to the other Party.
4. Upon expiry or termination of this Agreement, provided that the PSI as a whole will not be terminated,
  - (i) any unutilised or unallocated amounts of the Contributor funds, including its proportionate share of the accrued interest, (after paying or adequately providing for the payment of all liabilities) shall be repaid to the Contributor; and
  - (ii) the rights and obligations of the Parties towards one another shall terminate.
5. Upon termination of the PSI as a whole,
  - (i) the Fund Manager shall carry on no business for the PSI except for the purpose of winding up its affairs, and all of the powers of the Fund Manager under this Agreement and the other PSI administration contracts shall continue until the affairs of the PSI shall have been wound up; and
  - (ii) the PSI Account shall be terminated, and any unutilised or unallocated amounts, including the accrued interest, (after deducting any unpaid administration fee to the Fund Manager and paying or adequately providing for the payment of all liabilities) shall be repaid to the contributors in proportion to the share of their funds of the PSI funds.



## ARTICLE 10 - INDEMNIFICATION

1. The Contributor understands that the Fund Manager is not responsible for any claims, liability, loss or expense (including costs and reasonable attorney's fees) in connection with the activities of the PSI, relating to or resulting from the violation by the Contributor of any law or administrative regulation or any judicial, administrative or arbitration order, award, judgment, writ, injunction or decree.

The Fund Manager understands that the Contributor is not responsible for any claims, liability, loss or expense (including costs and reasonable attorney's fees) in connection with the activities of the PSI, relating to or resulting from the violation by the Fund Manager of any law or administrative regulation or any judicial, administrative or arbitration order, award judgment, writ, injunction or decree.

2. Notwithstanding Article 10.1 and recognising that certain contributors are contracting states (owners) of the Fund Manager, the Parties agree with respect to those contributors only, instead of Article 10.1, to refer to the Agreement between Denmark, Finland, Iceland, Norway and Sweden concerning the Nordic Environment Finance Corporation and to the Statutes of the Nordic Environment Finance Corporation as the governing documents with respect to the subject matter of Article 10.1.
3. The PSI shall act in its own name in relation to all third parties and neither the Fund Manager, the Contributor nor any officer, employee or agent of any of these shall through the performance of their functions in connection with the activities of the PSI under this Agreement assumes any personal liability to any third party. Every obligation, contract, certificate or undertaking, and every other act executed in connection with the PSI, shall be presumed to have been executed or done by the executors thereof only in their capacity as officers, employees or agents of the Fund Manager.

## ARTICLE 11 - RESOLUTION OF DISPUTES

1. Any dispute, controversy or claim arising out of or relating to this Agreement, or the breach, termination or invalidity hereof, shall be settled by arbitration in accordance with the UNCITRAL Arbitration Rules as at present in force. There shall be one arbitrator and the appointing authority shall be the London Court of International Arbitration. The seat and place of arbitration shall be London, England and the English language shall be used throughout the arbitral proceedings.
2. Notwithstanding Article 11.1 above and recognising that certain contributors are contracting states (owners) of the Fund Manager, the Parties agree with respect to those contributors only, instead of Article 11.1, to refer to the Agreement between Denmark, Finland, Iceland, Norway and Sweden concerning the Nordic Environment Finance Corporation and to the Statutes of the Nordic Environment Finance Corporation as the governing documents with respect to the subject matter of Article 11.1.



## ARTICLE 12 - NOTICES

1. Any notice or other communication given or made under this Agreement shall be sent to the following addresses:

For Nordic Environment Finance Corporation (NEFCO) (the Fund Manager)  
 Address: Fabianinkatu 34, P.O. Box 249, 00171 Helsinki, Finland  
 Fax: +358 9 630 976  
 Contact person: Magnus Rystedt

For the "United States" (the Contributor)  
 United States Environmental Protection Agency  
 Office of Global Affairs and Policy  
 Address: 1200 Pennsylvania Ave. NW 2670R, Washington, DC 20460, United States  
 Fax: +1-202-565-2409  
 Contact person: Yuolanda L. Tibbs

Done in two (2) original copies in the English language – one (1) for the Contributor and one (1) for the Fund Manager.


Date 7 June 2012

For and on behalf of  
 Nordic Environment Finance Corporation  
 (as the Fund Manager of PSI)

  
 Magnus Rystedt  
 Managing Director

For and on behalf of  
 the United States  
 (as the Contributor)

  
 Michelle DePass  
 Assistant Administrator  
 U.S. Environmental Protection Agency

  
 Husamuddin Ahmadzai, Tekn dr, CE  
 Special Adviser

